

Message Text

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ACTION STR-04

INFO OCT-01 ISO-00 STRE-00 FEA-01 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-07
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05
SS-15 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01
IO-13 AF-10 ARA-10 EA-07 EUR-12 NEA-10 /137 W
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P R 021449Z AUG 77

FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 9905

INFO AMEMBASSY OTTAWA

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USMTN

ACTION STR

STR PASS CODEL

C O R R E C T E D C O P Y F O R P A R A F O U R

E.O. 11652: N/A

TAGS: MTN, ETRD, US, CA

SUBJ: MTN-U.S./CANADA BILATERAL

1. SUMMARY. THE U.S. HELD AN INTENSIVE 14-HOUR BILATERAL DISCUSSION ON THE MTN WITH A CANADIAN DELEGATION ON JULY 29 AT SCIEZ NEAR GENEVA. THE TALKS FOCUSED ON THE ISSUES WHERE THERE ARE MAJOR U.S.-CANADIAN DIFFERENCES (TARIFFS, SECTORS, AND SUPPLY). THE MEETING WAS DISAPPOINTING TO THE U.S., AND REVEALED NO DISPOSITION ON PART OF CANADA TO ADJUST ITS LONG-HELD POSITIONS TO CONFORM WITH REALISTIC NEGOTIATING POSSIBILITIES. END SUMMARY.

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2. THE CANADIAN DELEGATION WAS CHAIRED BY AMBASSADOR GREY AND INCLUDED KEY MEMBERS OF ITS GENEVA DEL PLUS EASTHAM AND LOOMER FROM OTTAWA. THE U.S. DELEGATION WAS LED BY DEPUTY STR AMBASSADOR WOLFF. THE DISCUSSIONS WERE UNSATISFACTORY, LARGELY BECAUSE THE CANADIANS MERELY REITERATED THEIR OLD POSITIONS AND SHOWED LITTLE INCLINATION TO EXPLORE OTHER MEANS OF ATTAINING THEIR OBJECTIVES. THE

AGENDA, AT CANADIAN REQUEST, DEALT WITH THOSE ISSUES -
TARIFFS, SECTORS, AND SUPPLY - ON WHICH THE TWO DELEGATI-
ONS HAVE MAJORE DIFFERENCES. THIS FOCUS MAY ALSO HAVE
CONTRIBUTED TO THE NEGATIVE TONE OF THE MEETING SINCE THE
MANY AREAS ON WHICH CANADA AND THE U.S. AGREE WERE
ONLY BRIEFLY TOUCHED UPON.

3. ON TIMETABLE CANADA WAS APPREHENSIVE AND DID NOT
SHARE THE U.S. OPTIMISIM RE THE EC WILLINGNESS TO NEGO-
TIATE AN MTN CONCLUSION WITH SIGNIFICANT
SUBSTANTIVE RESULTS. CANADA SAW THE EC AGREEMENT ON TIME-
TABLE AS DICTATED BY EC DESIRE FOR A MINIMUM NEGOTIATION
AND SHALLOW TARIFF CUTS. AMBASSADOR GREY EMPHASIZED
CANADA WAS NOT WILLING TO FOREGO A SUBSTANTIAL NEGO-
TIATING RESULT FOR THE SAKE OF TIME BUT WAS EAGER
AND WILLING TO KEEP THINGS MOVING, PROVIDED IT DID NOT
REQUIRE THE SACRIFICE OF BASIC CANADIAN INTERESTS.
CANDA WAS INTERESTED IN A SUBSTANTIVE NEGOTIATION AND
WAS WILLING TO GIVE A LOT TO GET A LOT. AMBASSADOR WOLFF
REITERATED THAT THE U.S. OBJECTIVE REMAINS A SUBSTANTIAL
NEGOTIATING RESULT; THE IDEA OF THE TIMETABLE WAS TO GET
A STALLED NEGOTIATION MOVING. GREY COMMENTED THAT DANA-
DA WOULD NOT ACCEPT A BAD AGREEMENT FOR THE SAKE OF TIMING,
AND WOLFF POINTED OUT THAT WE HAD SET NO DEADLINES FOR
ENDING THE NEGOTIATION. CANADA SAID IT WOULD DO ITS
BEST TO COOPERATE WITH AN AGREED TIMETABLE BUT MAY NEED
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MORE TIME FOR ITS INTERNAL PROCESSES, PARTICULARLY IF
CANADA IS FORCED TO HAVE AN EXTENSIVE EXCEPTIONS LIST.

4. TARIFFS. CANADA RECITED ITS FAMILIAR POSITION ON
TARIFFS: A DEEPCUTTING FORMULAR PROVIDING FOR DUTY ELIM-
INATION AND FULL USE OF U.S. AUTHORITY. CANADA WAS
COMMITTED TO THE FORMULA APPROACH AND DID NOT WANT AN
ITEM-BY-ITEM NEGOTIATION. IT WANTED ELIMINATION OF DU-
TIES 5 PERCENT AND BELOW AND WAS NOT INTERESTED IN PARTIAL
REDUCTIONS AT THIS LEVEL. CANADA WOULD NEED TO TAKE
EXCEPTIONS IN ANY CASE, BUT A SHALLOW-CUTTING TARIFF
FORMULA WOULD RESULT IN A LARGER EXCEPTIONS LIST (AND
THUS MORE DELAYS IN TABLING ITS OFFERS) THAN WOULD
A DEEP-CUTTING ONE. GREY EXPLAINED THAT THE CANADIAN
GOVERNMENT WAS IN A WEAKER POSITION TO RESIST PROTEC-
TIONIST PRESSURES IF THE MTN RESULT PROMISED TO BE
MINIMAL. CANADA SAW THE MTN AS AN OPPORTUNITY FOR IN-
CREASED MARKET ACCESS, ENABLING A RATIONALIZATION OF THE
STRUCTURE OF CANADIAN INDUSTRY, AND WAS WILLING TO REDUCE
SUBSTANTIALLY ITS OWN LEVEL OF PROTECTION TO ACHIEVE
THAT. THE U.S. INDICATED ITS UNDERSTANDING OF CANADIAN
OBJECTIVES BUT POINTED OUT IT WAS NOT ENOUGH MERELY

TO ASSERT THEM. THE EC AND JAPAN WOULD NOT AGREE TO DUTY ELIMINATION ON THE SCALE DESIRED BY CANADA. THE U.S. WOULD COOPERATE WITH CANADA BUT CANADA MUST COME FORWARD WITH PROPOSALS DESIGNED TO DEAL WITH THE NEGOTIATING SITUATION AS IT IS. WHILE GREY ACKNOWLEDGED THAT CANADA HAS BEEN LOOKING INTO SOME FORMULA OF WORDS FOR THE TARIFF NEGOTIATING PLAN, HE HAD NOTHING TO OFFER AT THE PRESENT TIME. HE COULD ONLY REPEAT THAT THE U.S., AS A DEPARTURE POINT, SHOULD PUT ITS WHOLE NEGOTIATING AUTHORITY ON THE TABLE. WOLFF PATIENTLY RESPONDED THAT WE DID THIS IN 1975 WITHOUT SUCCESS AND THAT FRESH THINKING WAS NEEDED BY CANADA TO SEE HOW ITS OBJECTIVES CAN BEST BE SERVED IN THE CURRENT NEGOTIATING CONTEXT.

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ACTION STR-04

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00
OMB-01 STRE-00 AF-10 ARA-10 EA-07 EUR-12 NEA-10
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USMTN

5. ON SECTORS THE DISCUSSION COVERED FAMILIAR TERRAIN. CANADA POINTED OUT THAT IN THE CATEGORY OF 5 PERCENT AND BELOW 50 PERCENT OF ITS EXPORT INTEREST IN THE

U.S. AND 85 PERCENT IN THE EC WAS COVERED BY ITS TWO SECTOR PROPOSALS, FOREST PRODUCTS AND NONFERROUS METALS. (EH LATER SAID AN ADDITIONAL 25 PERCENT OF CANADIAN INTEREST IS ACCOUNTED FOR BY FISH.) CANADA SAW THE SECTOR APPROACH AS THE BEST MEANS TO DEAL WITH TARIFF ESCALATION AND UP-GRADING, A PREOCCUPATION OF WESTERN CANADIAN PROVINCES. THE U.S., WHILE NOT CLOSING THE DOOR ON THE SECTOR APPROACH, POINTED OUT THE LACK OF ENTHUSIASM SHOWN BY THE EC AND JAPAN FOR THE CANADIAN PROPOSALS AND SUGGESTED THAT THE REDUCTION OF TRADE BARRIERS IN THESE SECTORS COULD BE ACHIEVED IN OTHER NEGOTIATING CONTEXTS. GREY INDICATED CANADA MIGHT CONSIDER THAT POSSIBILITY, PROVIDED THE MAIN ELEMENTS IN ITS SECTOR PROPOSALS WERE COVERED, NAMELY, TARIFF REDUCTIONS OF MAJOR SIGNIFICANCE, A SPECIALIZED SAFEGUARDS SYSTEM, LIMITED OFFICIAL USE

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TEM AND A SURVEILLANCE BODY TO POLICE THE AGREEMENT. CANADA WOULD BE WILLING TO UNDERTAKE SUPPLY OBLIGATIONS ON ITS PART. THE U.S. ACKNOWLEDGED THAT IT OWED A MORE FORMAL RESPONSE ON THE TWO CANADIAN SECTOR PROPOSALS AND PROMISED THAT AFTER CHECKING WITH OUR INDUSTRY ADVOCATES, WE WOULD BE PREPARED TO RESPOND IN THE FALL, AND HOPEFULLY BEFORE OCTOBER 1. THE QUESTION OF A POSSIBLE AIRCRAFT SECTOR WAS RAISED, IN VIEW OF EC INTEREST, AND THE CANADIANS WERE FAVORABLE IF THE COVERAGE WAS RIGHT.

6. THE QUESTION OF SUPPLY WAS MAINLY COVERED IN THE SECTOR DISCUSSION. THE CANADIANS SAID NOTHING NEW. THEY

WERE WAITING TO BE TOLD WHAT THEIR NEGOTIATING PARTNERS WANTED IN SPECIFIC TERMS AND WERE WILLING TO DISCUSS THIS IN A COMMODITY CONTEXT IN THE SECTORS GROUP. CANADA WOULD NOT MAKE ANY AGREEMENT ON SUPPLY WITHOUT THE APPROVAL AND PARTICIPATION OF THE PROVINCES, AND SAW NO PROBLEM IN THIS REGARD. THEY WOULD CONTINUE TO OPPOSE DISCUSSION, HOWEVER MODEST, OF EXPORT RESTRICTIONS IN THE FRAMEWORK GROUP UNTIL PROGRESS WAS EVIDENT IN THE SECTORS GROUP.

7. SUBSIDIES. THERE WAS A BRIEF DISCUSSION ON HOW TO HANDLE THE EC. GREY HAD INVITED KLEIN, THE NEW EC OFFICIAL RESPONSIBLE FOR SUBSIDIES, TO VISIT GENEVA TO DISCUSS THE MAJOR ISSUES WITH HIM. WOLFF INDICATED THAT THE U.S. WOULD LIKE TO PROCEED WITH PLURILATERAL DRAFTING BY A FEW KEY COUNTRIES, MOVING SUBJECT BY SUBJECT UNTIL THE OUTLINES OF A POSSIBLE CODE WOULD EMERGE. GREY HAD NO OBJECTION TO THAT APPROACH BUT EMPHASIZED THE IMPORTANCE OF DEALING WITH REGIONAL DEVELOP-

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OPMENT SUBSIDIEIS. THIS HAS HIGHEST PRIORITY FOR CANADA,
AND IF THE EC BLOCKS AGREEMENT, CANADA WOULD SEEK A BI-
LATERAL UNDERSTANDING WITH THE U.S.

8. ON CUSTOMS VALUATION, CANADA IS REASSESSING ITS
POSITION AND MIGHT TAKE AN ACTIVE ROLE IN THE NEGO-
TIATIONS IF THE EC CAN COME UP WITH
A DRAFT THAT IS MUCH MORE PRE-
CISE. THE MAIN CANADIAN PROBLEM RELATES TO TREATMENT OF
NON-ARMS-LENGTH TRANSACTIONS. CANADA WOULD LIKE TO CON-
SULT WITH THE U.S. BEFORE THE U.S. RESPONDS TO THE
ANTICIPTED EC DRAFT.

9. CANADA RAISED THE QUESTION OF WHAT TO DO ABOUT
AUTO TARIFFS, IN VIEW OF THE PRESUMED U.S. INTEREST IN
HAVING CANADA MAINTAIN THE 15 PERCENT TARIFF NOW LEVIED AGAINST
EC AND JAPANESE VEHICLES. KEEPING THE TARIFF WOULD PRE-
SENT A DIFFICULT EXCEPTIONS PROBLEM AND GREY WONDERED
WHETHER A SECTOR APPROACH WOULD BE A MEANS OF DEALING WITH
IT. THE U.S. WAS NONCOMMITTAL BUT AGREED THAT THE MATTER
REQUIRED ATTENTION.

10. COMMENT: IT IS DISTURBING THAT THE CANADIANS
SHOWED NO SIGNS OF MOVING AWAY FROM POSITIONS
WHICH HAVE BEEN CLEARLY REVEALED AS NONSTARTERS. EQUALLY
UNSETTLING IS THE APPARENT CANADIAN CONVICTION THAT IF
ONLY THE U.S. WOULD SUPPORT CANADIAN POSITIONS MORE
VIGOROUSLY, THE OTHER PARTICIPANTS IN THE NEGOTIATIONS
WOULD MOVE TOWARD THE CAADIAN POSITION. U.S. DIS-
SATISFACTION WITH THE OUTCOME OF THE BILATERAL WAS
CLEARLY EVIDENT TO THE CANADIANS, AND THE TWO MEMBERS
OF THEIR DELEGATION RETURNING TO OTTAWA CAN BE EXPECTED
TO BRING THAT MESSAGE WITH THEM. CULBERT

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Message Attributes

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